

Message Text

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E.O. 11652: GDS
TAGS: EFIN
SUBJ: MEXICAN ECONOMIC SITREP 2

REF: A. STATE 277224 B. MEXICO 14384

1. EXCHANGE RATES AND CAPITAL MOVEMENTS: BANCO DE MEXICO AGAIN SET TRADING RANGE OF PESO 12 NOV AT 24.30. PESOS PER DOLLAR TO BUY VS. 24.53 TO SELL, SAME AS YESTERDAY. REPORTS WE GET STILL INDICATE A CONTINUING CAPITAL OUTFLOW OF MODEST PROPORTIONS.

2. STATEMENTS OF INTEREST GROUPS: THE HEAD OF THE CONSUMER PROTECTION-AGENCY ANNOUNCED THAT IN SEPTEMBER AND OCTOBER HIS AGENCY RECEIVED 55,000 COMPLAINTS ABOUT PRICE RISES AND THAT THEY WERE ARRIVING AT THE RATE OF 2,500 A DAY. A TOURIST ASSOCIATION STATED THAT CREDIT SALES IN DOLLARS OF AIRLINE TICKETS ARE OFF 95 PERCENT. PRESUMABLY TRAVELERS ARE AFRAID OF GETTING CAUGHT WITH DOLLAR OBLIGATIONS AND EVEN CHEAPER PESOS IN FUTURE.

3. GOVERNMENT FINANCE: SOME BANKING CIRCLES EXPECT GOM MUST COME UP WITH EXTERNAL FINANCING OF ABOUT
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6 BILLION DOLLARS IN COMING YEAR: 3.5 BILLION DUE

TO TRADE DEFICIT AND 2.5 BILLION DUE TO GOVERNMENT DEFICIT. GREAT UNCERTAINTY ABOUT HOW THIS CAN BE MANAGED. CALCULATION BY EMBASSY AG ATTACHE SHOW THAT IMPROVED GRAIN AND FEED PRODUCTION COULD REDUCE MEXICO'S IMPORT BILL OF THESE ITEMS IN COMING YEAR BY AS MUCH AS 100 MILLION DOLLARS. LAST YEAR MEXICO IMPORTED ABOUT 400 MILLION DOLLARS WORTH OF AGRICULTURAL PRODUCTS FROM THE U.S.

4. RUMORS: AMBASSADOR INFORMED BY MEMBER OF BOARD OF BANCO DE COMMERIO YESTERDAY THAT DUAL EXCHANGE RATE SYSTEM UNDER CONSIDERATION SIMILAR TO THAT MENTIONED REFTEL (B) BUT HE MENTIONED RATES OF 15 FOR COMMERCIAL TRANSACTIONS AND 19 FOR CAPITAL TRANSACTION. THIS DIFFERS FROM THE 17 VS. 22 SPREAD REPORTED REFTEL.

5. BUSINESS INFORMATION: TEXTILE INDUSTRY, PARTICULARLY FIRMS IN PUEBLA AREA, APPEAR TO BE IN GREAT DIFFICULTY. THE HEADS OF THE TEXTILE AND CLOTHING ASSOCIATIONS ANNOUNCED THAT ABOUT 385 CLOTHING FIRMS AND 10 TEXTILE FIRMS HAD CLOSED AND UNLESS SITUATION IMPROVED 40,000 WORKERS WOULD SOON BE OUT OF WORK. THE CAUSES OF THE FAILURES WERE GIVEN AS THE INCREASE IN COSTS OF INPUTS DUE TO DEVALUATION, THE LIMITATION OF PRICE INCREASES TO 10 PERCENT, THE FALL OFF IN SALES BY 35 PERCENT, AND THE "DECAPITALIZATION", I.E. BANKRUPTCY, OF FIRMS (REFERRED TO IN PARAGRAPH 5 OF REFTEL B). NEITHER PRIVATE BANKS NOR GOVERNMENT WOULD LEND TO THESE FIRMS, MOST OF WHICH APPEAR TO BE SMALL. AMBASSADOR VISITED PUEBLA YESTERDAY AND CONFIRMED OBVIOUS DISTRESS OF AREA. STOCK MARKET INDEX ROSE SLIGHTLY (1.17 POINTS); FIRST TIME SINCE SECOND DEVALUATION.

6. WAGES AND PRICES. CAMPILLO SAINZ, SECRETARY OF INDUSTRY AND COMMERCE, STATED THAT AUTOMOBILE PRICES WILL HAVE TO GO UP AN AVERAGE OF 38 PERCENT SHORTLY. MONTHLY BULLETIN JUST RELEASED BY A LOCAL BANK STATES THAT WHOLESALE PRICES WILL RISE BETWEEN 22 AND 25 PERCENT THIS YEAR. SEPTEMBER PRICES WENT

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UP 6.2 PERCENT OVER THOSE OF AUGUST. ALREADY THROUGH SEPTEMBER THIS YEAR WHOLESALE PRICES HAVE RISEN 16.3 PERCENT COMPARED TO 9.8 PERCENT FOR THE SAME PERIOD LAST YEAR. THE ARTICLE WENT ON TO STATE THAT OCTOBER PRICE RISES FOR MOST PRODUCTS WILL REFLECT THE 10 PERCENT OFFICIAL RISE GRANTED BY THE GOVERNMENT. CALDERHEAD

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